

Why Should I Lease Equipment?

As businesses prepare to compete and grow in a new millennium, many are searching for proven new ways to address their equipment financing challenge. The old ways won't meet today's and tomorrow's needs. The choice for many businesses is clear: equipment leasing.

Equipment Leasing Association research shows that eight out of 10 U.S. companies lease some or all of their equipment. Of all the ways to acquire equipment, leasing is the method most frequently used for all equipment types. In fact, almost any type of equipment can be leased - from fax machines and printing presses, to trucks and bulldozers.

Choosing to lease is a smart way to acquire equipment. There are three ways to acquire equipment — you can choose whichever way fits best with your company's needs.

- You can select the equipment by working with a vendor or a manufacturer, which offers leasing.
- You can select and order the equipment and then seek financing through a lessor.
- You can obtain the equipment directly through a lessor.

What are the Benefits of Leasing?

Leasing offers numerous advantages over other financing methods:

Tax treatment. The IRS does not consider an operating lease or a true lease to be a purchase, but rather a tax-deductible overhead expense. Therefore, you can deduct the lease payments from your corporate income.

Balance sheet management. Because an operating lease is not considered a long-term debt or liability, it does not appear as debt on your financial statement, thus making you more attractive to traditional lenders when you need them.

100% financing. With leasing, there is very little money down - perhaps only the first and last month's payment is due at the time of the lease. Since a lease does not require a down payment, it is equivalent to 100% financing. That means that you will have more money to invest in revenue-generating activities.

Immediate write-off of the dollars spent. Therefore, the equipment does not have to be depreciated over five to seven years.

Flexibility. As your business grows and your needs change, you can add or upgrade at any point during the lease term through add-on or master leases. If you anticipate growth, be sure to negotiate that option when you structure your lease program. You also have the option to include installation, maintenance and other services, if needed.

Customized solutions. A variety of leasing products is available, allowing you to tailor a program to fit your month-to-month or year-to-year cash flow needs. You are able to customize a program to address your needs and requirements - cash flow, budget, transaction structure, cyclical

fluctuations, etc. Some leases allow you, for example, to miss one or more payment without a penalty, an important feature for seasonal businesses.

Asset management. A lease provides the use of equipment for specific periods of time at fixed payments. The lessor assumes and manages the risk of equipment ownership.

Upgraded technology. If the nature of your industry demands that you have the latest technology, a short-term operating lease can help you get the equipment and keep your cash. Lease equipment that you expect to depreciate quickly. Your risk of getting caught with obsolete equipment is lower because you can upgrade or add equipment to meet your ever-changing needs.

Speed. Leasing can allow you to respond quickly to new opportunities with minimal documentation and red tape. Most of the time we will approve your application within one hour and you can have your equipment very quickly.

Lower payments than a Loan.

Improved Cash Forecasting. The lessee knows the amount and number of lease payments so they can accurately forecast the cash requirements for equipment.

Flexible end of term options. Return, renew or purchase.

Tax Benefits. Lessors can pass the tax benefits of ownership on to the lessee in the form of lower monthly payments. If you are in the Alternative Minimum Tax Bracket, a true lease will provide you with an attractive tax benefit.

Improved Earnings. Operating lease accounting provides a lower cost than a capital lease in the early years of a lease.

What are the Differences Between a Lease and a Loan?

Loan: A loan requires the end user to invest a down payment in the equipment. The loan finances the remaining amount.

Lease: A lease requires no down payment and finances only the value of the equipment expected to be depleted during the lease term. The lessee usually has an option to buy the equipment for its remaining value at lease end. By signing the lease, the lessee assigns his or her purchase rights to the lessor, who already owns or who then buys the equipment as specified by the lessee. When the equipment is delivered, the lessee formally accepts it and makes sure it meets all specifications. The lessor pays for the equipment and the lease takes effect.

Loan: A loan usually requires the borrower to pledge other assets for collateral.

Lease: The leased equipment itself is usually all that is needed to secure a lease transaction.

Loan: A loan usually requires two expenditures during the first payment period; a down payment at the beginning and a loan payment at the end.

Lease: A lease requires only a lease payment at the beginning of the first payment period which is usually much lower than the down payment.

Loan: The end user bears all the risk of equipment devaluation because of new technology.

Lease: The end user transfers all risk of obsolescence to the lessors as there is no obligation to own equipment at the end of the lease.

Loan: End users may claim a tax deduction for a portion of the loan payment as interest and for depreciation, which is tied to IRS depreciation schedules.

Lease: When leases are structured as true leases, the end user may claim the entire lease payment as a tax deduction. The equipment write-off is tied to the lease term, which can be shorter than IRS depreciation schedules, resulting in larger tax deductions each year. The deduction is also the same every year, which simplifies budgeting (Equipment financed with a conditional sale lease is treated the same as owned equipment.).

Loan: Financial Accounting Standards require owned equipment to appear as an asset with a corresponding liability on the balance sheet.

Lease: Leased assets are expensed when the lease is an operating lease. Such assets do not appear on the balance sheet, which can improve financial ratios.

Loan: A larger portion of the financial obligation is paid in today's more expensive dollars.

Lease: More of the cash flow, especially the option to purchase the equipment, occurs later in the lease term when inflation makes dollars cheaper

To Lease or Not to Lease...

...that is the question you might be asking. Take a minute and familiarize yourself with this comparison of all three options.

Lease	Bank Loan	Cash Purchase
<p>A non-cancelable contract extending over a fixed period of time.</p>	<p>A non-cancelable contract repaid in regular installments.</p>	<p>Using working capital acquisitions.</p>
<p>Advantages</p> <ul style="list-style-type: none"> • 100% financing • May be off-balance sheet financing • Preserves bank lines • Conserves capital • May provide tax advantages • Fixed terms & payments • Flexible terms • Easy add-on/trade-up • Full use without ownership • Creates new credit source • \$1.00 and 10% leases provide benefits of ownership • Lets you pay for the equipment as you use it 	<p>Advantages</p> <ul style="list-style-type: none"> • Benefits of ownership • May provide tax advantages 	<p>Advantages</p> <ul style="list-style-type: none"> • No financing charge • Benefits of ownership • May provide tax advantages
<p>Disadvantages</p> <ul style="list-style-type: none"> • Non-cancelable agreement 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Balance sheet financing • Relatively short term • Extensive paperwork • Covenant restrictions • Uses credit lines • No obsolescence protection • May require compensating balances, down payment, and origination fee • Likely to be on a variable interest rate 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Depletes cash reserves • No obsolescence protection • Creates price shoppers

What Types of Companies Lease?

Lessees vary widely from small, one-person operations to Fortune 100 corporations, and the kinds of equipment being leased are just as diverse. Transactions range from a few thousand dollars worth of equipment (such as fax machines) to multi-million-dollar cogeneration facilities, telecommunications systems, medical equipment (including CAT scanners and MRI imaging), office systems, computers, commercial airliners, and transportation fleets. There is no end to the types of equipment companies lease.

In 1999, it is estimated that approximately \$226 billion worth of equipment had been leased. This number represents approximately 30% of all equipment purchases.

Evaluate Your Financing Options

A lease is a financing agreement that is structured to meet your organization's special needs. To decide if leasing is the best option in your case, you must first understand those needs and ask yourself these questions:

- How does this equipment make your business more competitive?
- What is the most efficient use of your cash flow to pay for this equipment?
- How long will you use it?
- What will your equipment needs be in the future?

Obviously, you will want to factor the cost of leasing into your evaluation. Generally, the cost of leasing is comparable to those of other financing options when looking at the whole transaction. It is important to point out that leases are not loans. As a result, their costs are figured differently from those of loans. Leases take into account that the equipment is worth something at the end of the lease term. This is called its residual. Residuals are built into lease pricing, usually making the lease payments lower than a loan. To compare lease products, it is better to compare monthly payments than to try to compare loan interest rates with lease rates. On a cost-of-capital basis, leasing may be the least expensive option.

Leasing companies can offer competitive rates for a number of reasons. Lessors - with their volume purchasing power - can secure attractive financing deals and pass along the savings to the lessee. The lessor also is better able to take advantage of the deduction for depreciation expense that comes with ownership.

Once you've completed your evaluation and decided to lease your next equipment acquisition, the first step is to select the type of lease that fits your needs. There are several different types of leases (see Glossary of Key Leasing Terms). You and your lessor should consider these factors in determining which is best for you.

- How long you want to use the equipment;
- What you intend to do with the equipment at the end of your lease;

- Your tax situation;
- Your cash flow; and
- Your company's specific needs as they relate to future growth.
- You also will need to determine what happens at the end of the lease.

Your options can include returning the equipment to the lessor, purchasing the equipment at fair market value or a nominal fixed price, or renewing your lease. To design a leasing plan that best meets your needs, you need to understand your options.